

Message Text

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ACTION EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 EA-07 NEA-10 ISO-00 FEA-01
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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9612

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

USINT BAGHDAD

C O N F I D E N T I A L LONDON 00915

E.O. 11652: GDS

TAGS: ENRG IR UK

SUBJECT: UK-IRAN OIL BARTER DEALS

REF: TEHRAN 157; TEHRAN 324

1. BRITISH OFFICIALS CONFIRM SECSTATE FOR TRADE DELL
HAS COME TO THE VIEW THAT BARTER ARRANGEMENTS MUST BE
LOOKED AT CAREFULLY WITH RESPECT TO CIVIL AS WELL AS
MILITARY CONTRACTS. DELL INFORMED THE IRANIANS DURING
HIS RECENT VISIT THAT HMG WOULD NOT AS A MATTER OF
POLICY INTERPOSE ANY EXPORT CREDIT OR FOREIGN EXCHANGE
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OBSTACLES TO OIL BARTER DEALS INVOLVING SALES OF BRITISH
MILITARY EQUIPMENT. HE WAS MORE RESERVED ABOUT THE POS-
SIBILITIES OF EXTENDING THIS APPROACH TO CIVIL CONTRACTS
BUT NONETHELESS AGREED THAT SUCH ARRANGEMENTS WOULD BE
CONSIDERED FOR TRANSACTIONS INVOLVING PUBLIC SECTOR
EXPENDITURES.

2. THE PREVIOUS BAC-SHELL BARTER DEAL NOTWITHSTANDING, BP AND SHELL ARE EXTREMELY RELUCTANT TO BECOME INVOLVED IN BARTER TRANSACTIONS AND APPARENTLY HAVE INSISTED ON SUBSTANTIAL DISCOUNTS AS THE QUID PRO QUO FOR THEIR PARTICIPATION. SOME OBSERVERS SUSPECT THE OIL COMPANIES HAVE PURPOSELY DEMANDED DISCOUNTS OF A MAGNITUDE DESIGNED TO ENSURE LACK OF SUCCESS IN NEGOTIATIONS ON FURTHER BARTER DEALS. BP AND SHELL ARE AVERSE TO PERFORMING NIOC'S MARKETING FUNCTION, OR BEING SADDLED WITH QUANTITIES OF OIL OVER AND ABOVE THEIR NORMAL CONSORTIUM LIFTINGS.

3. CONVERSELY, BRITISH OFFICIALS ARE RELUCTANT TO FLATLY REJECT IRANIAN BARTER SUGGESTIONS SINCE THERE OBVIOUSLY IS STRONG, HIGH LEVEL SUPPORT BEHIND THESE INITIATIVES TO MAINTAIN THE IMPETUS OF IRAN'S DEVELOPMENT PROGRAM. THE BRITISH ARE CONCERNED THAT FAILURE TO LEND A SYMPATHETIC EAR COULD WELL MEAN THE LOSS OF A GOOD CHUNK OF BRITAIN'S VERY SUBSTANTIAL EXPORT TRADE WITH IRAN. (UK EXPORTS TO IRAN REACHED 435 MILLION POUNDS FOR THE FIRST TEN MONTHS OF 1976; IMPORTS TOTALED 847 MILLION POUNDS FOR THE SAME PERIOD AND CONSISTED ALMOST EXCLUSIVELY OF CRUDE OIL.) WHITEHALL HAS AVOIDED COMMENTING ON PRESS REPORTS THAT HMG INVOLVEMENT MAY EXTEND TO THE POINT OF PROVIDING GOVERNMENTAL GUARANTEES OF PAYMENT IF NECESSARY TO SALVAGE CONTRACTUAL ARRANGEMENTS, ESPECIALLY THOSE IN THE MILITARY FIELD. FCO HAS PREPARED A DEFENSIVE BRIEF FOR FONSEC CROSLAND (TO BE USED PRIMARILY IN AN EC CONTEXT) WHICH STRESSES THE CONFIDENTIAL

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IMPORTANCE OF TAKING SERIOUSLY THE DEVELOPMENT PROGRAM PROBLEMS WHICH THE IRANIANS FACE. NOTING HMG HAS NOT ADOPTED ANY FORMAL POSITION RESPECTING OIL BARTER DEALS FOR CIVIL CONTRACTS, THE BRITISH WILL SUGGEST THAT INDUSTRIALIZED STATES OUGHT TO EXCHANGE VIEWS ON THE QUESTIONS POSED.

4. COMMENT: WHILE NOT IGNORING FRANCE, ITALY, THE NETHERLANDS, OR THE UNITED STATES, IT APPEARS THAT THE IRANIANS SELECTED THE UK AS A PRIME TARGET FOR ATTEMPTING TO ASSURE AN INCREASED VOLUME OF CRUDE LIFTINGS OVER THE LONG TERM THROUGH THE IMPLEMENTATION OF A COMPLICATED SYSTEM OF BARTER. THE IMPORTANCE OF IRAN TO THE UK AS ITS LARGEST EXPORT MARKET IN THE MIDDLE EAST, THE EXPOSED POSITION OF BP AS A 40 PERCENT SHAREHOLDER IN THE CONSORTIUM AND THE GENERAL ECONOMIC WEAKNESS OF THE BRITISH ECONOMY COMPELS HMG TO LEND CLOSE IF NOT SYMPATHETIC ATTENTION TO IRANIAN DEMANDS. NEGOTIATIONS ARE LIKELY TO PROCEED ON A CASE-BY-CASE

BASIS BUT THE DIFFICULTIES OF DEALING WITH A TWO TIER
PRICE SYSTEM (WITH THE IRANIANS CLINGING TO THE TOP
TIER) WOULD SEEM TO ASSURE THAT PROSPECTIVE BARTER
ARRANGEMENTS WILL REACH AN IMPASSE IN MOST INSTANCES.
ARMSTRONG

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